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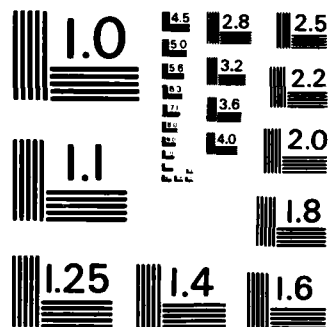
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AIR WAR COLLEGE

RESEARCH REPORT

No. AU-AWC-85-186

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BRAZIL--ON THE ROAD TO GREATNESS

By COLONEL GARY C. RYSER

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BRAZIL--ON THE ROAD TO GREATNESS

by

Gary C. Ryser
Colonel, USAF

A RESEARCH REPORT SUBMITTED TO THE FACULTY
IN
FULFILLMENT OF THE RESEARCH
REQUIREMENT

Research Advisor: Doctor David E. Albright

MAXWELL AIR FORCE BASE, ALABAMA
May 1985

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AIR WAR COLLEGE RESEARCH REPORT ABSTRACT

TITLE: Brazil--On The Road To Greatness

AUTHOR: Gary C. Ryser, Colonel, USAF

Since the 1960's Brazil has been on the verge of becoming a nation of considerable power. The country has abundant natural resources and a building industrial capacity. Its natural resource reserves are some of the largest in the world. The country is rich in agriculture potential and is predicted to rival the export capability of the United States within the next few years. Brazil has built a modern military and a modern military-industrial capacity which has allowed it to jump to the world's number five ranking in military exports. Recently the country elected a President which puts it in the category of a democratic nation. This paper discusses the probability of Brazil becoming a worldly power due to three factors: economic growth, a revived democracy, and a modern military. Although a huge national debt now exists, proper attention has been given to the remedy, and Brazil is once again on their path to destiny.

BIOGRAPHICAL SKETCH

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CHAPTER I

BRAZIL--A LAND OF DESTINY

There is an old aphorism that says Brazil is the next great power and always will be. The world would do well to put this saying aside; Brazil has all the needed pieces in order to fulfill its destiny. It is a country rich in huge deposits of many of the world's most desired resources, and it is now searching for the only missing resource--oil. It is not at war with any country at any level, and, until the past year, has maintained a stable peace among its own populace. Because of its immense size, of which includes some of the world's best crop lands, Brazil is not a country with a population problem. With a country nine-tenths the size of the United States (not including Alaska and Hawaii), the population census gives Brazil a population of 130,000,000. An independent state since 1822, Brazil is rapidly emerging as a country destined to be great, if only it dares to be; only self-induced strangulation can keep it from attaining its rightful place in the world order. Looking at the last two superpowers to emerge in the world order, the United States and the Soviet Union, both evolved to that position as a result of World Wars. Yet Brazil, never having fought for survival of its national identity, may make that elite group without firing a shot in anger. Politically, Brazil enjoys warm, if not favorable, relations with all South American countries with whom Brazil has had very few disputes. None of these caused a major shooting incident. This is a country that, thirty years ago, built

their capital city of Brasilia, fashioned from the ground up in the interior of the country. Today this city and its satellites have a population of over 1,300,000 and is one of the most modern cities in the world, which attests to the emergence of Brazil as a bona-fide, powerful country, rich in history but yet looking to the future.

After thirty years of "almost" arriving, Brazil is now closer to achieving world power status than ever before. Three broad causes underlie its appearance on the world stage: (1) Brazil's economic growth has been the most rapid of any developing country since the Second World War, (2) This growth has both reflected and legitimized domestic political stability, and (3) Brazil has an able and fully professional foreign service. (1:13) The most current crisis is a staggering debt problem, but this is solvable with adept handling and time. Three main advantages are in Brazil's favor that will propel it into the 21st century along side the other powerful nations of the world. They are a revived democracy, economic growth, and a modern military. These factors provide the foundation for this emerging nation. The following arguments should lend credibility that it can, and maybe quicker than one may think, achieve its goals. An underlying advantage that may evolve is the leadership that Brazil could offer to its neighbors in South and Latin America; this gives additional impetus for the United States to work closely with Brazil during its debt repayment program. For Brazil it has but to grasp the "brass ring" of dominance that now touches its

fingertips.

CHAPTER II

BRAZILIAN DEMOCRACY

Electing a President

On January 15, 1985, Brazil's electoral college chose its first civilian president in twenty-one years. But the more startling fact is that the opposition candidate, Tancredo Neves, was the elected president and not the candidate of the prominent Social Democratic Party (PDS), ruling party for twenty years. Brazil has been run by military officers after the civilian government of President Joao Goulart was overthrown in 1964 to stop what the military saw as communist influence and growing anarchy. Even then the military leaders thought the restoration process would be relatively simple. They took over the Presidency, purged officials tied to the previous administrations, repealed laws limiting repatriation of capital by multinational firms, and weakened the power of labor unions and reduced wages during the next two decades. (2:11) But there is one point that must be made here and that is that the military regimes that have ruled Brazil cannot be associated with the repressive military regimes like Argentina, Chile, and Paraguay. The last six years, Brazil has been ruled by a President that has taken many steps to prepare the country for a return to an elected democracy.

The process is called "abertura" or political opening, and President Figueiredo, fifth in succession of retired army generals to hold the Presidency, has aimed at

bringing the country back to democratic practices. Abertura has included amnesty for political prisoners, a partial lifting of censorship and more opposition-party participation in government. (3:34)

This then leads to two facts that are significant: The first of these are that for the past six years, the people have been promised a return to democracy and have even seen documented examples of such as previously stated. The abertura process was well conceived by the prior president and is a stroke of genius that has kept this country on its road to destiny. The second significant factor is that for the past 30 years, the people have enjoyed relative prosperity, especially when compared to other countries of Central and South America, and for the people under 30 that is all they have known as an average. Even during the past two years when food riots and political rallies in Sao Paulo and Rio de Janeiro erupted, they were not widespread or enduring. (4:56-57, 5:57)

Only in the past two years during the era of recession and loss of employment has there been a dedicated, hardsell effort to return to democracy. The National Student Union (UNE), an important political actor on the left in the early 1960's, was abolished in 1964, but under abertura was allowed to resurface in 1979. During a nationwide election held in 1979, only a minority of the students voted. (6:215) The willingness of President Figueiredo to open up the political climate to parties of all persuasion has most likely defused any serious

anti-government reprisals in Brazil. A return to democracy coupled with an era of relative prosperous living has been the most two significant factors that have provided the political climate needed for Brazil to become a world power. President of the People, for the People

In the spring of 1984, the rallying cry of the Brazilian opposition parties became "Diretas-Ja"-direct elections now. Although they had been assured of a democratic president in 1985, the people of Brazil were now asking for a direct hand in the selection of the President, rather than having him selected by a government-dominated electoral college. Over 200,000 Brazilians demonstrated for this form of vote in Sao Paulo in January 1984.(7:58) But this rallying cry never became a grass roots issue in this election. After all, for the first time in 21 years, Brazil would have a president from other than the military. By summer of 1984, the Diretas-Ja cry had subsided. Even though some determined advocates were trying to revive its momentum, leaders of the Party of the Brazilian Democratic Movement (PMDB), Tancredo Neves' party, were only paying lip service to it because they were convinced they had the votes to win in the electoral college.(2:12) A return to a democratic institution has evolved since 1974.(6:193) President Geisel, himself an Army General, began the political transition in 1974 by carrying out consultations with various civilian groups on the reduction of the tight authoritarian situation that Geisel had inherited. During the period President Geisel allowed more opposition

activities within the government. Since 1975, the principal initiatives and pressures for further redemocratization have come from the opposition; however, the government has demonstrated exceptional political skill in controlling the process and in co-opting the proposals of the opposition. The relationship between the two, government and opposition, has allowed the democratic process to live and to expand.(6:194) Geisel was the first of the General-Presidents to control the military establishment to the point that he could impose his own choice of a successor on the army and the nation.(8:8) It had been rumored that Figueiredo had been helpful to Geisel in 1974 during Geisel's ascendancy to the position of President.

Many people had doubted that President Figueiredo, after succeeding Geisel in 1979, would continue the abertura process.(9:67) But he did, and his actions may have been a key factor in the peaceful elections that took place in January 1985. During his presidency, Figueiredo, said to be a weak and indecisive president, allowed free parliamentary elections, which took place in December 1982.(2:12) Substantial gains were made by the opposition parties. The biggest opposition party, the PMDB, managed to elect several state governors, and Leonel Brizola, himself given amnesty of political crimes in 1979 by Figueiredo, was elected Governor of the State of Rio de Janeiro, the second most important state in the country, on the ticket of his own PDT (the leftist Democratic Worker's Party) party.(9:68) These losses were accepted by the government, and those who were

elected took office.

Two more significant events took place during President Figueiredo's term which portrays his determination to ensure that abertura evolved gradually, but in a progressive direction. (10:54) After he had suffered a heart attack in October 1981, President Figueiredo went to Cleveland, Ohio, to undergo treatment by a cardiac specialist. He returned not until mid-November, and during his absence, he allowed his civilian vice-president, Antonio Aureliano Chaves de Mendonca, to serve as acting president in accordance with the constitution. He was acting president twice during Figueiredo's term. This was the complete opposite of 1969 when President Costa e Silva was incapacitated by a stroke--a junta quickly seized control of the government, while evaluating the president's capability to continue in office, rather than allow the civilian vice-president to occupy the country's highest office. (10:54) Figueiredo's act was not an act of a weak and indecisive president. At that time the Brazilian populace must have sensed some credibility in the President's determination to ensure abertura, however gradual. The second event was the electoral reform legislation that Figueiredo submitted to his congress in November 1981. It required the following changes for the 1982 elections:

1. Voting for all municipal, state, and federal elections would be on a straight party ticket.
2. All states would contain candidates for

all the positions to be disputed in 1982.

3. The withdrawal of a candidate for a gubernatorial post would result in the cancellation of all those votes the party in question received.

4. All ballots would be cast for candidates of one single party.

The adoption of the straight party ticket was, most likely, a maneuver intended to ensure that the government party, the PDS, retained a sufficient majority in the electoral college to control the indirect election of President Figueiredo's successor. (10:55) But as clearly evident, what it did was not allow small parties that could not find candidates for every position on the ballot to enter the contests, thereby concentrating the voting among five different parties. Another advantage was that it gave one candidate a better chance of receiving a majority vote, a vital statistic in any electoral race. The elections in 1982 proved a resounding success, as already noted, for the opposition and Brazilian democracy. The church was very effective in educating and reaching the masses and the poor about the elections, as a network of 70,000 grassroots groups were formed. Participation in these elections was very high, and the voting reasonably honest. (11:43) But the most subtle outcome of the November 1981 legislation was that opposition parties were now allowed, and one could vote for a slate of non-government candidates. Giant strides for a country in just three years of president Figueiredo's term. Today Brazil's democracy looms as bright as any

country's in central and South America: the Brazilian people can truthfully say it is a government of the people, brought about, not by bloodshed and revolution, but mainly by two retired Army Generals, put into power by the military. One important note on the military rule of Brazil is that, as compared to its counterparts in other South American countries, the military presidents, upon taking office, have had to retire and they did not appear in public anymore as military officers or in uniform.(9:70) This, in effect, kept the military and the executive branch of the government from being identified as one, and, therefore, Brazil did not suffer from being a typical Latin American military dictatorship.

Itamarati

It is no small, insignificant fact that Brazil has been as stable and without turbulence as it has been during the past 21 years. An element within the country has provided this stabilizing influence and can share in the country's recent democratic success. A small, but self-confident elite has helped to steer Brazil on its road to democracy by guiding the country in its foreign affairs. This is the Itamarati, a foreign relations community recognized in Brazil and the international community as competent professionals.(2:14) Its members, through difficult competitive examinations, are recruited from among the upper and middle classes. Homogeneous in social origin, they undergo a two-year period of training that gives them not only professional expertise but also a sense of

tradition and esprit de corps unusual among the public services of Latin America. It is to the credit of the Itamarati that while the questions of a return to democracy and a threatening economy were present in Brazil, that this community was able to maintain a country cohesion and in the people, a sense of being able to overcome the obstacles.

Since 1967, Brazilian governments, through the Itamarati, have consistently interrelated the economic and political aspects of their external policy as a single entity, not a separate components. (10:10) They have achieved harmony, or a relative harmony, within the political framework by integrating the external policy tenets included in the policy platforms of the two major parties. By including the opposition in these foreign policy objectives, Itamarati has given that added confidence to the abertura, another reason to believe that the military would relinquish control. Although the Itamarati has had to share more of the formation of foreign policy with other organs of government and with large state companies, they still retain a central role in the formation of that policy. (1:15) Although not particularly friendly toward the United States, it quietly promotes Brazilian interests and tries to keep on good terms with nearly everyone. It seeks to project an image of Brazil as a major power, doubtless looking to the ultimate fulfillment of the dream of Brazilian "grandeza". (11:164) Through those means the Itamarati has helped to champion the process of democracy in Brazil

The Next Step--Direct Elections

A giant step was taken on January 15, 1985 with the election of the President. The next step is the process of direct elections, no small step for Brazil. After his election to the office of President, 74 year-old Tancredo Neves promised "real, effective, courageous, irreversible change." (12:33) One of Neves' first priorities will be to fulfill campaign promises to expand democracy through a constitutional amendment restoring direct popular elections. Progress may not be rapid in this endeavor because Neves must tread softly and slowly. Although he is more liberal in outlook than most of the military, he has been skillful in working compromises between the military and the opposition over a 50 year political career. Neves realizes that a gradual approach, as taken by Figueiredo, is the most realistic approach. To put the military in his camp, Neves has pledged not to investigate corruption or human-rights abuses during the past two decades of military rule. Leaders of the armed forces have said that they would accept the opposition victory. An example of how far the country has come in six years is that Aureliano Chaves, Figueiredo's vice-president, agreed to back Neves in the electoral college over his PDS party candidate. The PDS president, Jose Sarney, even resigned to become Neves' vice-president. "For the first time in 20 years," said Brazilian political scientist Peter Schweizer, "the common Brazilian feels he has the right to hope again."

For all practical purposes, Brazil is ready to enter

the realm of the powerful in a political sense. Yes, there are hidden traps for the new found freedom, such as an enormous debt, but this can be neutralized by viable fiscal policies and help from the U.S.. Democracy will prove to be a strong pillar in Brazil's building program with the other countries of the world.

CHAPTER III

DISASTER OR DESTINY

Presidential Promises

On his election eve, President-elect Neves promised not to put the burden of the debt on the backs of the Brazilian worker. "We owe money, and money you pay with money--not with hunger, misery and unemployment." (1:36) But then how do you pay a \$100 billion debt when the interest alone is \$10-12 billion. President Neves surely is wondering the same, regardless of his campaign rhetoric. He knows that to default on the debt would most certainly detract the Brazilian move toward realizing the dream of being on the same plane as any major power. He also has to worry that if he does not provide an acceptable plan to emerge from the debt crisis successfully, the military is always there to wrest control once again from the civilian president as in 1964. "Economic problems are a threat to any government," said one State Department Latin American expert. "They were what weakened the authoritarian ones and actually helped to bring about democracy in some countries. The interest due on its debt in 1985 could reduce the benefits of a promising recovery after a long recession. Some of Neves allies want him to press for a moratorium on future payments; but most observers doubt he will seek radical changes in Brazil's relations with its foreign creditors." (14:36) During his campaign, Neves said he would "discipline" state spending while shifting more resources into social programs and seek to increase basic food

production for Brazil's millions of malnourished poor. He has pledged to negotiate a "social pact" with business and labor to fight inflation and spur development, but added that such a pact "will not demand any sacrifices by workers." The road to recovery will be rocky, but there is no one boulder that can prove immovable if the correct course is taken. Brazil possesses the economic factors that can pull it through the crisis. But first a look at how it arrived at the present economic situation.

From Rags to Riches

Brazil is a country of 3.3 million square miles, almost the size of the United States (except for Alaska and Hawaii). The population, as taken in 1983, stood at 131.3 million, making it the world's sixth most populous nation. Two cities, Rio de Janeiro (population, 8 million) and Sao Paulo (population 13 million) comprise almost one-sixth of the total population. In terms of gross national product (GNP), Brazil's economy is the tenth largest in the world and the West's eighth largest. Brazil is second only to the United States as the biggest food producer and exporter. It leads in coffee and ranks near the top in soybeans, cocoa, meat, sugar and cotton. (14:17) The U.S. Department of Agriculture has reported that no other country in the world produces a wider variety of agriculture products in significant quantities than does Brazil. This extravaganza is produced on 121 million acres, or about 10 percent of Brazil's arable land. Over the next three years, the Brazilians hope to plant 2.5 million more acres with wheat,

sugar cane, soybeans, rice, vegetables and fruit. A rare occurrence, just the opposite of what is happening in the United States, is taking place as tens of thousands of poor farmers are moving into the fertile but undeveloped cerrados savannah region in the central plateau. In one area, the government is giving away 1,250 acres to each of 150 homesteaders. (4:57) This push to the farms has been aided by the severe unemployment in the large cities on the East Coast of Brazil.

As if an increasing external debt was not enough, the weather has not contributed in a helpful way either. Nature has added to the misery by unleashing the worst floods in a century on Brazil's southern states while searing the Northeast with a drought that now is in its fifth year.

(21:29) In effect, due to the weather and a shortage of fertilizer because of a cut in imports, in 1983 and 1984, Brazil had to import rice and corn, both of which it normally exports, to offset the projected shortfalls.

Torrential rains in the Atlantic coast states of Espirito Santo and Minas Gerais drove over 5,000 people from their homes in January 1985. However due to the increased land put into production in the last three years, it has been agriculture that has been a major force driving Brazil's economy. Farm output is up and so are sales of farm equipment, which are made in Brazil. This is in sharp contrast to North America and Europe where farm equipment sales are sorely depressed. Such farm equipment producers as Ford, Finland's Valmet, and the recently renovated

Massey-Ferguson expect their tractor sales in Brazil to surge by 85 percent to 110 percent this year. Total tractor sales should approach 42,500 units, nearly double last years turnover, according to Valmet de Brazil marketing director. In September 1984, Ford alone shipped 1,000 units from its new "world " tractor plant in Sao Paulo, a four year high. (15:56)

In September 1984, the government inaugurated a 950 mile, \$700 million road into West Central Brazil, the cerrados savannah region talked about in the preceding paragraph; it is this area that may become a new breadbasket for Brazil. Agricultural expansion in this 500 million acre region, the size of Texas, Oklahoma, Kansas, Nebraska, and South Dakota, has already begun causing high expectations among the economists. Japan is considering investing \$400 million in the area, with possible further outlays totaling \$3 billion by 1990. (15:56)

Another farm product that is expanding rapidly is oranges, exported in the form of orange juice. In 1983, 1984, and 1985 when the florida orange juice industry was crippled due to hard freezes and in 1984 by the canker, Brazil has taken advantage of it. This year, more of the orange juice americans drink will come from Brazil than ever before. (16:259) So good are the sales that Brazil has no orange juice reserves.

These are impressive credentials for a yet developing country where vast fertile acreage remain unused. Due to the unemployment in the cities, families are flocking to the

new areas which will someday allow Brazil to surpass the United States and become the world's number one producer of food. An example of how Brazil can do this is that even though imported orange juices face steep U.S. tariffs, Brazil's concentrate is still competitive with Florida's because costs are lower. Although farm foodstuffs cannot extinguish the external debt alone, it is one forceful illustration of Brazil's emergence on the worldfront as a power in the year 2000 if not before. Although agriculture is a definite help to the economy, natural resources are another area where Brazil stands tall in economic development.

Brazil is deeply blessed with some of the world's most needed resources. Since the mid-1970s, huge new deposits of iron, chromium, uranium, manganese, nickel, copper, bauxite and gold have been discovered deep in the Amazon basin. Other minerals such as columbium, tantalum, diamonds, tin, lithium, tungsten, and magnesium have been discovered but are not yet fully developed or estimated in deposit amounts. To exploit this mineral wealth, the Brazilians have launched a mammoth development scheme, called the Carajás Project, that includes dozens of mines, a 550 mile railroad and a giant dam on an arm of the Amazon river, all to be completed by 1990. (4:57) The cost is enormous-- \$61 billion; however, the future income of the project, estimated at some \$14.6 billion annually may be worth the start up costs. New minerals resources are being uncovered regularly and added to an enormous ledger of

wealth. One recent iron ore find in the north alone accounts for 13 percent of the world's total known reserves. These resources have barely tapped the potential that lies undeveloped, untouched. Only half of Brazil's vast territory has been developed, and much of the remainder has not even been explored. (14:18) It is clear that Brazil cannot expend this amount of money to explore, expand, and export these vital resources when the debt is so high. Foreign capital will be required to aid in the development of these resources. The U.S. faces a growing need for most of these items and should become a willing partner in any endeavor. The Japanese, also, are investing heavily in this land of plenty.

An unforeseen blessing is the unemployment rates now being experienced in the large cities on the East Coast. They make a ready pool of labor to open these developments in the interior of the country. The only real hindrance, other than investment capital, is the lack of lines of transportation from the interior to the shipping points. Roads, railroads and waterway shipment vessels are sorely needed. The dilemma is that Brazil needs the income from these resources, but the debt will not allow adequate production due to enormous start up costs. As stated earlier, huge amounts of foreign capital are required. With all of these natural resources, Brazil has only to exploit it before being truthfully self-sufficient.

Oil has been the real achilles heel of the Brazilian economy, but recent discoveries hold hope for adequate oil

deposits being found. In 1969 oil imports cost Brazil a mere \$223 million; in 1982, the country spent \$11 billion on oil, half of the total value of its imports. Many say that the shocks of the oil-price increases in the 1970s started Brazil on its economic slide. At that point, Brazil imported over 80 percent of its oil from the Middle East, and the higher costs stunted the growth capability of the country. (21:28) Brazil is busy looking for oil along the Amazon Basin and offshore. Although Brazil is already an oil producer, it is far from being self-sufficient. While the world's consumption of oil increased by 37 percent during 1970-1980, the United States increased by 16 percent, Brazilian consumption skyrocketed by 20 percent. Presently, Brazilian produced oil only accounts for 20 percent of the need.

Brazil's known reserves of oil total on 600 million barrels, only a two year supply, but they are increasing as a significant oil drilling program is underway. Six or seven promising oil basins have been found offshore in north eastern Brazil and in the Amazona delta, but nothing that would cause them to think their worries are over. Purchases of oil have been cut back in the past year, forcing Brazil to draw down its oil reserves to perilously low levels. Brazil has reduced its oil imports from a 795,000 barrels a day in 1982 to 710,000 barrels a day in 1983, which contributed to a \$3billion in overall savings. By November 1984, the country had reduced its imports to 440,000 barrels a day, and had increased its own production of oil from

200,000 barrels a day in 1980 to over 500,000 barrels a day in 1984. (17:29) Responding to the energy problems which threatens to derail its development, Brazil initiated a very ambitious national energy program in 1975.

Two phases of this program, exploitation of its vast hydroelectric power potential and development of an alcohol fuel substitution program, have allowed Brazil to reduce its dependence on imported oil. Brazil's hydroelectric potential is just enormous and still remains to be definitely measured as work continues in the remote part of the Amazon jungle. (18:4) Two dams account for this huge potential, the giant Itaipu dam on the Parana river just above Paraguay, and the Tucuruí dam on the Tocantins river in Amazonia. Most of the power generated by the Tucuruí dam will be used for bauxite processing in Amazonia and for mineral refining in the Amazon delta. But if dependence on oil is to be further reduced more such dams will need to be developed. Over 80 percent of the electricity powering the industrial expansion in Rio de Janeiro and Sao Paulo comes from the hydroelectric plants. Yet only an estimated 11 percent of the country's hydropower potential has been tapped to date. (14:18) Brazil's experts predict that the hydroelectric reserves are sufficient to take the country into the 21st century when nuclear power plants will be required to support the future needs.

The needs for oil would have been much more destructive if the Brazilian government had not invested \$6 billion in its National Program for Alcohol (PROALCOOL) in

1975. By 1984, more than 500,000 cars had been modified or produced to burn alcohol (ethanol) in Brazil. Original engine problems were fixed and the demand for alcohol burning cars continue to increase, since gasoline is more expensive than alcohol in Brazil. (10:29) Estimates show that this program saved \$1.5 billion in oil imports in 1981. Sugar cane is the ingredient used for raw material in this program, which has made PROALCOOL the leading synthetic fuel program in the world. Recently the United States has drastically reduced its synthetic fuel funded program to where many of the large energy companies have withdrawn from the program.

Because of the increased awareness and astute planning by Brazil, its dependence on oil has reduced from 80 percent in July 1979 to 68 percent in 1981. Shell oil company has projected, as a result of the hydroelectric and alcohol programs, that in 1990, Brazil's dependence of imported oil would drop to less than 40 percent. (10:29) Brazil, because of its belt tightening measures, has been most careful not to change the vision that exists in the minds of the Brazilian people--that of being destined for greatness. Another way of putting it is that they can't fail because they are a country of destiny.

Brazil has taken other measures to align itself with the great powers of the world. Instead of being a country that exports primary products such as coffee, sugar, cocoa and iron ore, overwhelmingly to North America and Western Europe, it has changed to a country which sells more

manufactured goods than commodities. Instead of trading primarily with the United States and Western Europe, over one-third of her exports go to the third world. High Tech companies have been systematically squeezed out of the computer and telecommunications market through legislation passed by the Brazilian government. Although the United States has protested, Brazil views this as a development issue, with little hope for change while the external debt is so high.

The Struggle with the IMF

President Neves first big hurdle will be with the banks that hold the mortgage on Brazil's future, including the IMF. In trying to manage the country's debt he has emphasized social and economic solutions first. For a developing country with a \$100 billion debt, 218 percent annual inflation rate, and 25 percent unemployment rate, that calls for some soul searching. While some of his advisors have asked for a "negotiated moratorium" on foreign debt payments, Neves has already indicated that this is not the direction in which he wishes to go. Not yet anyway. Neves has appeared to accept the outgoing government's negotiations with banks on a long-term renegotiation of Brazil's foreign loan, which was re-negotiated in January 1985. For a decade Brazil has had an expanding middle class, those that were riding the crest of the economy tidal wave. How good were the good times? In 1980, Sao Paulo state boasted a gross income that topped that of the whole of Argentina. (19:9) But in 1983, Brazil was forced to

tighten its belt and to absorb some very hurting measures to curb its inflation.

These measures produced the high unemployment rate that Brazil currently has. At the gut of the cost cutting remedies were the measures taken to limit pay increases that had been tied to the runaway inflation. A law put into effect by the former President Figueiredo was very unpopular with the workers, although he did enter it into law. To varying degrees, the law allowed adjustments to salaries for inflation ranging from a full 100 percent to a total value of three minimum salaries (the basic wage index) and then were scaled down as salaries went up. Those who earned ten minimum salaries would receive 80 percent adjustment. Fifteen minimum salaries is considered to be a middle class income. (20:66) So the standard of living was being attacked, and families who had just seen themselves graduate from a life of poverty into the middle class were again experiencing hard times due to inflation, unemployment or both.

An interesting sidelight to the wage law was that the lower wage earners were treated with the better indexation rate than those in the higher earning brackets. The downturn has stoked some social unrest in a country already known for its extremes of wealth and poverty. Half the population receives 12.6 percent of the national income. By contrast, the richest 10 percent get 51 percent of the income. (4:57) This point speaks highly for those ministers who helped mandate the law. It speaks of caring for the

people that is not always present in the Third World, especially in a situation such as this. Another action by the Brazilian government was struck in February 1983 when the cruzeiro was suddenly devalued by 23 percent in an attempt to reduce the country's balance of payments deficits.

But these actions, although drastic, have preserved Brazil's confidence in itself and to an extent, the lending country's confidence. Brazil's precarious hold on financial survival is of major concern to United States banks, which hold about 35 percent of the country's outstanding debt. (21:29) Most certainly, all of these issues will be on the agenda for discussions when the new President meets with President Reagan, which is now scheduled for late spring of this year. Although these measures have taken its toll of the Brazilian people, major social unrest has not erupted as of yet. The election of a civilian president is probably the one factor that has soothed the storm. However, the people will be looking for swift, decisive action so that they can see a light at the end of the tunnel. Today, one has to say that even with these gigantic problems, a faint glimmer does exist for Brazil. One of the more heartening items of news is the lowering United State's interests rates. Each one percent of interest means a difference of \$1 billion on the debt repayment. With the interest rates forecast to remain at current levels, Brazil has received at the very least, new hopes with which it can point to the future.

CHAPTER IV

MILITARY READINESS

An Expanding Military Complex

There may be, as the song says, an awful lot of coffee in Brazil, but there's also plenty of brain power, technology and initiative in that country, and the defense industry has its share. The export market is benefitting also. (22:32) As Brazil's trade shifts toward Third World countries, "its ideological policies, which up to now have been basically Western, will necessarily shift," comments David Fleischer, a political scientist at the University of Brasilia. Adds Foreign Minister Gueveiro (under President Figueiredo): "We do not belong to any military bloc or intercontinental alliance. We fight for our own interest." (23:48) This approach has been very successful as are the sales of weapons by Brazil's armaments industry, already the world's sixth-largest, to arms-hungry Third World nations. In 1983, arms exports climbed to \$2.2 billion, making weapons Brazil's third-largest export behind soybeans and coffee. In the Iran-Iraq war, both sides are now using Brazilian weapons, purchased directly by Iraq and supplied indirectly to Iran by Libya, a major customer for Brazilian arms. (23:48)

If farming has been the major reason for Brazil being able to breathe under the weight of the heavy external debt, a growing arms industry must rank a very close second. Brazil's emergence as a major arms exporter grew out of the need to modernize the equipment of its armed forces in the

1970s. A reasonable action for a country expecting to walk along the side of the superpowers. At a time when Brazil was developing its independent foreign policy, the Brazilian government decided to establish an internal arms industry in an effort to reduce its dependency on foreign sources. One must marvel at this decision and the irony of it. Brazil has not fought a war in South America in this century; although it did send an infantry division to Italy in WW II, the only South American country to join the Allies. Relations with Argentina, Brazil's arch-old rival, are now on a friendly and cooperative basis. In addition they have no visible threat from outside; even the Communist Party has worked within the government guidelines and has not caused eyebrows to raise. Even during the food riots in Sao Paulo in 1983 and the attack against the standard of living, communist activity was at a low in Brazil. Brazil's military is not even all that large, although the Air Force is the largest in South America. When Brazil abrogated its military cooperation pact with the U.S. in 1977, behind its actions were calculations aimed at developing an independent arms industry based on world-wide exports. (24:20)

The Army is the dominant branch in the Brazilian military as is the normal case in Third World countries. The Army has the primary mission for maintaining internal security; but to some extent the Navy and Air Force share in this mission. The Navy has a river patrol mission and the Air Force has a counter-insurgency mission. The Navy has an aircraft carrier, a few destroyers, frigates, submarines,

and corvettes, and maybe some blue water aspirations; however, for now, the Navy will settle for the coastal security mission, which now extends out to 200 miles. The Air Force shares in this mission. Brazil's ties to the West and South Africa are historically close and the Brazilians show every intention of maintaining and strengthening those ties; the Brazilian Admirals would like to be charged with sea duty to maintain those lines of communications, but the external debt will not permit extensive spending on a Navy that would be difficult to justify. But later no doubt. The Navy already is touted as the best in South America. (25:64)

The United States and Brazilian military are closely identified with each other. By 1970, over 6,350 Brazilian officers and enlisted men had attended U.S. schools, either within the Continental United States or in the Canal Zone. Most of the Brazilian service schools were patterned after U.S. schools. (25:65) These officers have become the senior officers of the 1980s, well schooled in the art of military operations and still with close ties to the United States. This relationship will bear its better fruit in the form of a lasting friendship into the 21st century.

Arming the Third World

From warplanes, missiles and tanks to hand grenades, pistols and bullets, Brazil's fast growing and covert arms industry is selling arms around the world, tailored to meet the needs. According to arms-sales executive Luiz Augusto Bernardini Tancredi, Brazil has become the Third World's

sixth biggest manufacturer and exporter of conventional weapons. Although Brazil will not release figures and data on arms sales, it is believed that 95 percent of the manufactured arms are exported. Robert Godoy, a Brazilian journalist, estimates that sales in 1984 could reach \$1 billion, with weapons going to 33 countries in the Middle East, Latin America, Africa and Asia. He says about 400 firms employing 100,000 people, produce armaments here. (26:14A)

The EMBRAER company represents a real attempt at independence from U.S. and European aircraft industries. EMBRAER has expanded its production to nearly 50 different models for agriculture, passenger and limited military use. The Bandeirante and Xavante aircraft are popular aircraft exported to developing countries. The company is currently developing the AMX fighter, a subsonic, highly acrobatic, fighter plane capable of carrying more than 8,000 pounds of external weapon stores a distance of 1,250 miles.

AVIBRAS currently manufactures rockets for the Brazilian aerospace program. A air-to-surface missile, currently being developed, will be exported to Third world countries for deployment on Soviet-made aircraft. (25:10)

ENGESA is the largest of the three main arms manufacturers, the other two having just been discussed. Its combat land vehicles have found markets in Iraq, Libya, Qatar and 27 other Middle Eastern, African and Latin American states. Many of these vehicles have been battle tested and have proven their effectiveness in Middle East

conflicts. (25:68-69) One has to question if this lucrative endeavor will be a long term asset for Brazil. Although it has aided in its external debt payments, the non-volatile atmosphere that now exists in South America has been due to the inability of any nation to pose a credible threat to any other country. With this arms industry infrastructure, bordering countries are now looking closely at Brazil's intentions. Here is where the close ties between Brazil and the United States enters in. The remaining South American nations can look to the United States to hold Brazil in check if it develops hostile or greedy intentions. To this extent Brazil also serves as a stabilizing influence in South America and prevents the spread of communism. All in all, the Brazilian defense establishment can be figured already in the neighborhood of the worldly powers.

CHAPTER V

BELIEVE IT OR NOT

A local joke in Brazil is that Brazil always is teetering on the edge of an abyss but never falls in because the abyss is never big enough. This joke is now passe. Ambassador Langhorne Motely has commented that Brazil will certainly become one of the major powers of the 21st century. (14:78) Projections have Brazil passing that of Canada and Italy in GNP by the year 2000, making Brazil the sixth largest economic power in the free world. While the debt is enormous for a developing country, on a per capita share it is not as great as Mexico's or Argentina's. In the period between 1970 and 1983, per capita income more than doubled to \$2,358. Although this standard of living is now being attacked via the debt, the expectations of the people hold high hopes for a rebound of the economy. Much of this is due to the people believing in themselves and in Brazil as a nation. Brazilians have become well informed about the foreign debt because the crisis is the subject of daily lead newspaper articles and daily television news casts. As a Brazilian lawyer put it, " Before, every Brazilian was an expert on soccer; now we've become a nation of economists." (27:435)

Brazil, as a result of President Carter's human rights issues, decided that Brazil would be better to explore a new policy that was based on a North-South perspective instead of the bi-polar East-West approach. The author of this policy was Antonio Francisco de Silveira.

foreign minister in the Geisel administration. Da Silveira championed close ties to third world countries and insisted that ideological factors must not figure in Brazil's search for new markets. (20:66) To this end Brazil strengthened its ties with Europe and Japan, softened its ties to the United States, and strengthened trade relations with third world economies, in particular those of Africa, the Middle East and Latin America. (20:66) In 1981, 51.7 percent of Brazil's exports went to the Third World and only 46.7 percent to the North.

This is not to say that Brazil is increasingly hostile to the United States. Brazil has spoken out against the Soviet Union's incursion into Afghanistan. In April 1983 Muammar Qaddafi, Libya's leader, asked Brazil to allow four Libyan aircraft, carrying medical supplies to the Nicaraguan Sandanistas, to land in Manaus to refuel. (Libya was then and is now a major importer of Brazilian arms.) However, acting on a tip from American intelligence, Brazilian military advisers inspected the planes and found them carrying military cargoes; Libya was forced to take the cargo back to Africa. Brazil is increasingly adhering to the philosophy that it does not belong to any military bloc or intercontinental alliance. And that is the vein in which the United States should deal with Brazil, not as a third world developing country, but as a country that may someday rival it in exports and strength.

Brazil can be a valuable ally in South America, mainly due to the fact they are less culturally alien than

the United States. Thomas Enders, Assistant Secretary of State for Inter-American Affairs in 1982 said, "The United States and Brazil are natural friends and allies in a world that is increasingly competitive and dangerous. (14:40) But Brazil must progress to add substance to its dream of grandeur. The United States would do well to help the ship of state steer through the precarious waters of world recession and external debt. With lowering interest rates and a strong export market Brazil can once again enjoy the era of high expectations. Putting it all together is the only ingredient necessary for Brazil to become a major power in the world order. Those ingredients are available and can be molded into a country , proud and strong.

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